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Message Text

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FM USMISSION NATO
TO SECSTATE WASHDC 294
SECDEF WASHDC
INFO JCS WASHDC
USCINCEUR
AMEMBASSY BONN
AMEMBASSY PARIS
NSE/NSSG BRUSSELS
USNMR SHAPE

C O N F I D E N T I A L SECTION 1 OF 2 USNATO 1013

E.O. 11652$ GDS
TAGS: NATO XG ETRN MARR
SUBJ: CENTRAL EUROPE PIPELINE POLICY COMMITTEE (CEPPC)
MEETING, 20-21 JAN 75

BEGIN SUMMARY: CEPPC ADOPTED (SUBJECT TO FRENCH CONFIRMATION) INTERIM SYSTEM FOR USE OF FLOATING NATO RATES ON MILITARY TARIFFS AND SET VALUE OF CENTRAL EUROPE PIPELINE SYSTEM (CEPS) UNITE AT FFR 1.10. COMMITTEE ALSO HELD COMPREHENSIVE DISCUSSION OF SPECIAL REPORT BY NATO BOARD OF AUDITORS CONCERNING SPECIAL PAYMENTS BY FRANCE TO TRAPIL AND LIMITATIONS ON NATO AUDIT. GENERAL LINES OF REPORT TO NAC EMERGED FOR GUIDANCE OF RAPPORTEUR IN DRAWING UP DRAFT FOR CONSIDERATION AT APRIL MEETING.
END SUMMARY:

ITEMS OF INTERST, KEYED TOAGENDA, ARE REPORTED BELOW:

I. FLOATING RATES FOR MILITARY TARIFFS.

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BELGIAN REP (BIKAR) MADE IMPASSIONED PLEA FOR ADOPTION OF AT LEAST INTERIM SYSTEM WHICH WOULDPROVIDE RELIEF FOR BELGIUM, FRG, AND NETHERLANDS, WHO CURRENTLY PAY TARIFFS THROUGH UNREALISTIC INTERNATIONAL MONETARY FUND (UMF) EXCHANGE RATE. CENTRAL

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EUROPE OPERATING AGENCY DIRECTOR OF FINANCE (MORRIS) EXPLAINED THAT CURRENT SYSTEM WAS BASED ON FFR AND NATIONS WERE BILLED IN THEIR OWN CURRENCIES AT IMF RATES. THE BILLING, HOWEVER, ALSO SPECIFIED PAYMENT INWHATEVER CURRENCY WAS REQUIRED BY CEOA AND EXCHANGE WAS AGAIN CALCULATED AT IMF RATES.
NON-HOST COUNTRIES WERE BILLED PARTIALLY IN FFR AND PARTIALLY IN STRONGER CURRENCY, THUS THEY BENEFITTED TO A CERTAIN EXTENT FROM CURRENT SYSTEM. FRANCE WAS ALWAYS BILLED IN FFR AND THUS WAS MAXIMUM BENFICIAIRY, CEPPC AGREED THAT SYSTEM NEEDED TO BE CHANGED, AND ALL BUT FRANCE AGREED TO THE REQUIREMENT FOR AN IMMEDIATE MODIFICATION. COMMITTEE AGREED TO USE OF FLOATING RATES IN CONVERSION OF MILITARY TARIFF BILLING FROM FFR DIRECTLY INTO WHATEVERCURRENCY WAS CALLED FOR, SUBJECT TO FRENCH CONFIRMATION.COMMITTEE INSTRUCTED GENERAL MANAGER TO MAKE DIRECT CONTACT WITH FRENCH AUTHORITIES IN ATTEMPT TO SATSIFY GOF CONCERNS AND TO CLEAR COMMITTEE DECISION AS QUICKLY AS POSSIBLE.

II. MILITARY TARIFFS, PROPOSED INCREASES.

CEPPC AGREED TO SET NEW CEPS UNIT AT FFR 1.10. NEW VALUE IS IN ACTUAL FRANCS AND THUS SOME 5-8 PERCENT LOWER THAN RATE REQUESTED BY CEOA. CEOA WILL CALCULATE RESULT OF NEW DECISION WHEN APPLIED AND REPORT TO THE COMMITTEE IF ADDITIONAL INCREASE IS REQUIRED. COMMITTEE REQUESTED US TO LIFT RESERVATION AGAINST INCREASE IN STORAGE TARIFFS FROM 3 TO 3.5 UNITS. US REP (LOVELAND) REPEATED POSITION GIVEN DURING JANUARY MEETING, THAT US COULD NOT ACCEPT THE INCREASE UNTIL IT HAD HAD OPORTUNITY TO EXAMINE CEOA STUDY ON STORAGE COSTS. MORRIS STATED THAT CEOA STUDY WOULD BE DISTRIBUTED WITHIN ONE MONTH FOR DISCUSSION AT APRIL MEETING.

III. 1974-1975 FINANCIAL STATUS
GENERAL MANAGEER (ROBERTUS) STATED THAT FINAL 1974 FIGURES INDICATED DEFICIT OF FFR 39.5 MILLION OR 28.4 PERCENT OF OPERATING COSTS. HE ALSOESTIMATED 1975 RESULTS GIVING DEFICIT OF FFR 44.5 MILLIONOR 27.2PERCENT OF COSTS IF CEPS UNIT REMAINED AT FFR
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1.10 AND STORAGE CHARGE AT 3 UNITS.

IV REPORTS OF NATO BOARD OF AUDITORS FOR 1969, 1970 AND 1971.
ATTEMPTS TO DISCUSS AUDITORS' REPORTS WERE FRUSTRATED BY FRENCH REP (GENTILHOMME), WHO INSISTED THAT INTRODUCTIONS TO THE REPORTS INDICATED THAT FRENCH ACCOUNTS COULD NOT BE AUDITED BY NATO. HE AGREED THAT GOF PLACED SOMERESTRICTIONS ON AUDITING BUT BELIEVED SUCH RESTRICTIONS TO BE THOROUGHLY JUSTIIFIED AND THAT NATO BOARD OF AUDITORS HAD SUFFICIENT ACCESS TO RECORDS IN AORDER TO CERTIFY CEPS ACCOUNTS. SINCE MOST OF THE BOARD OF AUDITORS' COMMENTS ON 1969, 1970 AND 1971 REPORTS HAD EITHER BEEN CORRECTED IN THE INTERIM OR WERE INCLUDED IN THE SPECIAL REPORT UNDER ITE M V, CEPPC AGREED TO PROSTPONE DISCUSSION OF THE ANNUAL

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AUDITS UNTIL ITEM V HAD BEEN RESOLVED.

V. SPECIAL REPORT BY NATO BOARD OF AUDITORS (PO/73/73) AND
REPORT BY RAPPORTEURS (AC/120-D/857).

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C O N F I D E N T I A L SECTION 2 OF 2 USNATO 1013

CEPPC RESERVED FULL DAY (21 FEB 75) FOR THIS SUBJECT,
EXPECTED TO BE HIGHLY CONTROVERSIAL. DURING MORNING SESSION
RAPPORTEURS, HOFFMAN (NETHERLANDS), DUNCAN (CANADA) AND HOLDEN (UK)
(ON PERSONAL RATHER THAN NATIONAL BASIS), EXPLAINED ANDDEFENDED
THEIR FINDINGS (PARAS 1-45). FRENCH REP INTERVENED FREQUENTLY
WITH DEFENSE OF TRAPIL AND FRENCH GOVT ACTIONS IN CHARGING EXTRA
FEES TO OIL COMPANIES FOR SERVICES PERFORMED WITH CEPS RESOURCES.
US MEMBER OF NATO BOARD OF AUDITOS (DRAKERT) EXPLAINED THT LIMI-
TATIONS PLACED ON BOA BY GOF DID NOT PERMIT SUFFICIENT ACCESS
TO RECORDS TO ALLOW CERTIFICATION OF GOF ACCOUNTS, NOR DID THEY
PERMIT ANY ACCESS TO TRAPIL RECORDS WHICH WOULD HAVE EXPOSED
SPECIAL PAYMENTS AT AN EARLY DATE. FRENCH REP REPEATED GOF
CONTENTION THAT TRAPIL WAS PRIVATE CONTRACTOR TO GOF AND, HENCE,
NATO BOA HAD NO AUTHORITY TO AUDIT TRAPIL RECORDS WHICH WERE
ADEQUATELY VERIFIED BY GOF AUDITORS. DRAKERT STATED NATO BOA
OPINION THAT INTERNAL AUDIT HAD NOT BEEN SATISFACTORY TO
ALLOW BOA CERTIFICATION OF CEPS ACCOUNTS. HE POINTED OUT FACT
THAT AN ADEQUATE AUDIT OF PAYMENTS TO ACHIEVE "HARMONZIATION" OF
PROFITS PER FRENCH INTERPRETATION OF 1965 CEPPC DECISION WULD
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AVE REVEALED EXISTENCE OF SPECIAL PAYMENTS AS SOON AS THEY OCCURED.
US
REP (ECK) SUPPORTED DRAKERT'S STATEMENT AND REPORTED US BELIEF
THAT ALL PAYMENTS CONNECTED WITH SERVICES RENDERED BY CEPS SHOULD
BE MATTER OF RECORD AND SHOULD BE INCLUDED IN ANNUAL AUDIT
OF CEPS FINANCES. CEPPC AGREED THAT RAPPOTEURS' FINDINGS (PARAS
1-31 AND 36-43) CONSTITUTED REASONABLE REPRESENTATION OF THE FACTS
ALTHOUGH THEY ALSO CONTAINED SOMEMEASURE OF OPINION WHICH WAS
NOT NECESSAIRLYSHRED BY ALL
ALLIES.

CEPPC DEVOTEDAFTERNOON SESSION TO FORMULATION OF FORMAT FOR
COMMITTEE REPORT TO NAC. US REP (LOVELAND) COULD NOT ACCEPT
RAPPORTEURS' CONCLUSIONS(PARA 46) BECAUSE HE DID NOT BELIEVE
THAT CEPPC DISCUSSION IN 1965 ON "HARMONIZATION" COULD BE INTER-
PRETED AS "CLEARLY" GIVING GOF AUTHORITY TO REQUIRE SPECIAL
PAYMENTS FROM OIL COMPANIES FOR CEPS MOVEMENTS WITHOUT REPORTING
THE ADDITIONAL REVENUE TO CEPPC. HE COULD AGREE TO SUBSTITUTE "AR-
GUABLY" FOR "CLEARLY" BUT CEPPC DECIDED NOT TO INCLUDE
RAPPORTEURS' CONCLUSIONS IN THEIR REPORT TO NAC.

LOVELAND OBJECTED TO RECOMMENDATIONS IN SUBPARAS 48(C)
AND (D) WHICH DISCUSSED NEW ARRANGEMENTS FOR RISING TRAPIL
PROFITS ON THE BASIS OF "NET CEPS REVENUES FROM CIVIL MOVEMENTS".
HE BELIEVED THAT SUCH LANGUAGE WOULD PERMIT PRESENT SITUATION
TO CONTINUE WHEREBY GOF COULD LEVY ADDITIONAL PAYMENTS ON CEPS
CLIENTS WITHOUT KNOWLEDGE OF CEPPC. COMMITTEE AGREED TO LIMIT
RECOMMENDATIONS TO SUBPARAS 48(A) AND (B) CONCERNING SPECIAL
PAYMENTS AND A MODIFIED APRA 49 CONCERNING NATO'S RIGHTS TO
AUDIT ALL CEPS ACCOUNTS.

CEPPC REQUESTED RAPPORTEURS TO DRAFT REPORT TO NAC FOR
CONSIDERATION AT APRIL MEETING. REPORT WILL RECOUNT FACTS AS
NOW ACCEPTED, AND FOLLOWING GENERAL CONCLUSIONS:

(A) SPECIAL PAYMENTS PROBLEM STEMS FROM IMPRECISE
CEPPC 1965 DECISION ON "HARMONIZATION".

(B) AT LEAST ONE NATION (US) BELIEVES THAT GOF ACTION
IN 1965 OF LEVYING EXTRA FFR 0.20 PAYMENT WAS NOT CLEARLY JUSTIFIED
BY THE DECISION.

(C) ALLIES (EXCEPT FRANCE) REGRET THAT GOF ACTION WAS
NOT NOTIFIED TO CEPPC.

(D) ALLIES (EXCEPT FRANCE) BELIEVE THAT 1968 ACTION BY
FRANCE IN AUGMENTING SPECIAL PAYMENT TO AS MUCH AS FFR 1.50 WAS
TOTALLY UNJUSTIFIED BY 1965 DECISION.
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(E) ALLIES (EXCEPT FRANCE) BELIEVE THAT PROPER AUDIT
BY NATO BOA WOULD HAVE REVEALED ANOMALY IN TIME TO PERMIT CEPPC
ACTION.

(F) ALL AGREE THAT 1965 AGREEMENT ON TRAPIL PROFIT
PAYMENTS SHOULD BE RENEGOTIATED.

(G) ALL AGREE THAT GOF AND NATO BOA SHOULD DEVELOP AUDIT
PROGRAM TO SATISFY ALL CONCERNED.
REPORT WILL DRAW RECOMMENDATIONS FROM PARAS 48(A) AND

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(B) AND 49. MISSION EXPECTS THAT REPORT WILL BE ACCEPTABLE TO
ALL SINCE IT WILL NOT BESPECIFICALLY CRITICAL OF FRANCE AND ALL
OPINIONS WILL BE FAIRLY REPRESENTED.

VIII. ANY OTHER BUSINESS

GENERAL MANGER ANNOUNCED THAT ONE CONTRACT FOR CIVIL MOVEMENTS
IN GERMANYWOULD BE MODIFIED TO GIVE A 15 PERCENT TARIFF INCREASE
DURING 1975. HE HOPED THAT INDICATED A TREND. COMMITTEE REQUESTED
INFORMATION FROM US REP ON POSSIBILITY OFHOSTING MAY MEETING.
LOVELAND NOTED OFF THE RECORD THAT WASHINGTON AUTHORITIES
WERE CONSIDERING THE TRIP BUT THAT NO DECISION HAD BEEN MADE.
HE WOULD INFORM THE COMMITTEE AS SOON AS POSSIBLE.MCAULIFFE

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